

The cover photograph shows a beam of white light passing through a group of glass prisms manufactured by the Pennsylvania Optical Division of Itek. The light rays of the beam are parallel until they are separated into various colors of the spectrum by the refracting or "bending" action of the prisms. The full-color cover was printed from developmental Itek RS™ lithographic plates at Farnsworth Press, Boston, Mass.

Operations:

	1968	1967*
Sales	\$126,260,000	\$129,197,000
Income –		
From continuing operations	1,592,000	5,203,000
Before extraordinary items	592,000	4,723,000
Net income	569,000	4,723,000
Earnings per Share of Common Stock –		
From continuing operations	.70	2.43
Before extraordinary items	.26	2.21
Net income	.25	2.21

Financial Position:

Working Capital	\$ 22,469,000	\$ 23,362,000
Current Ratio	1.9 to 1	2.0 to 1
Plant & Equipment, net	21,394,000	18,142,000
Total Assets	69,161,000	64,708,000
Short-Term Debt	10,625,000	9,029,000
Long-Term Debt	965,000	778,000
Stockholders' Investment	42,513,000	40,517,000
Common Shares Outstanding at Year End	2,274,549	2,244,993
Book Value per Share of Common Stock	18.69	18.05
Government Contract Backlog	83,495,000	49,290,000

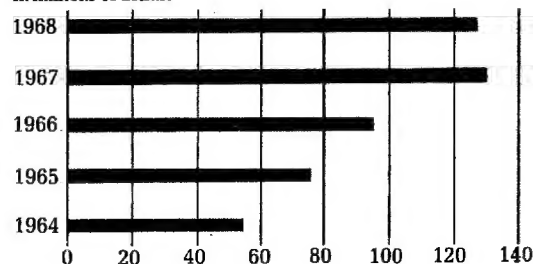
General:

Number of Employees	6,099	5,749
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* See Financial Note 1

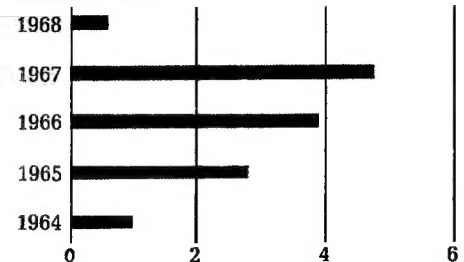
Net Sales

In millions of dollars



Net Income

In millions of dollars



President's Letter to the Stockholders:

Sales for 1968 were \$126 million, and net income, after nonrecurring and extraordinary charges, was \$569,000 or 25 cents per share. Net income from continuing operations was \$1.6 million or 70 cents per share, but operating losses of two discontinued divisions, and extraordinary items (explained in the notes to the financial statements) reduced this by 45 cents per share. The 1967 figures, restated to reflect the acquisition of Scionics Corporation in 1968, were sales of \$129 million and profits of \$4.7 million or \$2.21 per share.

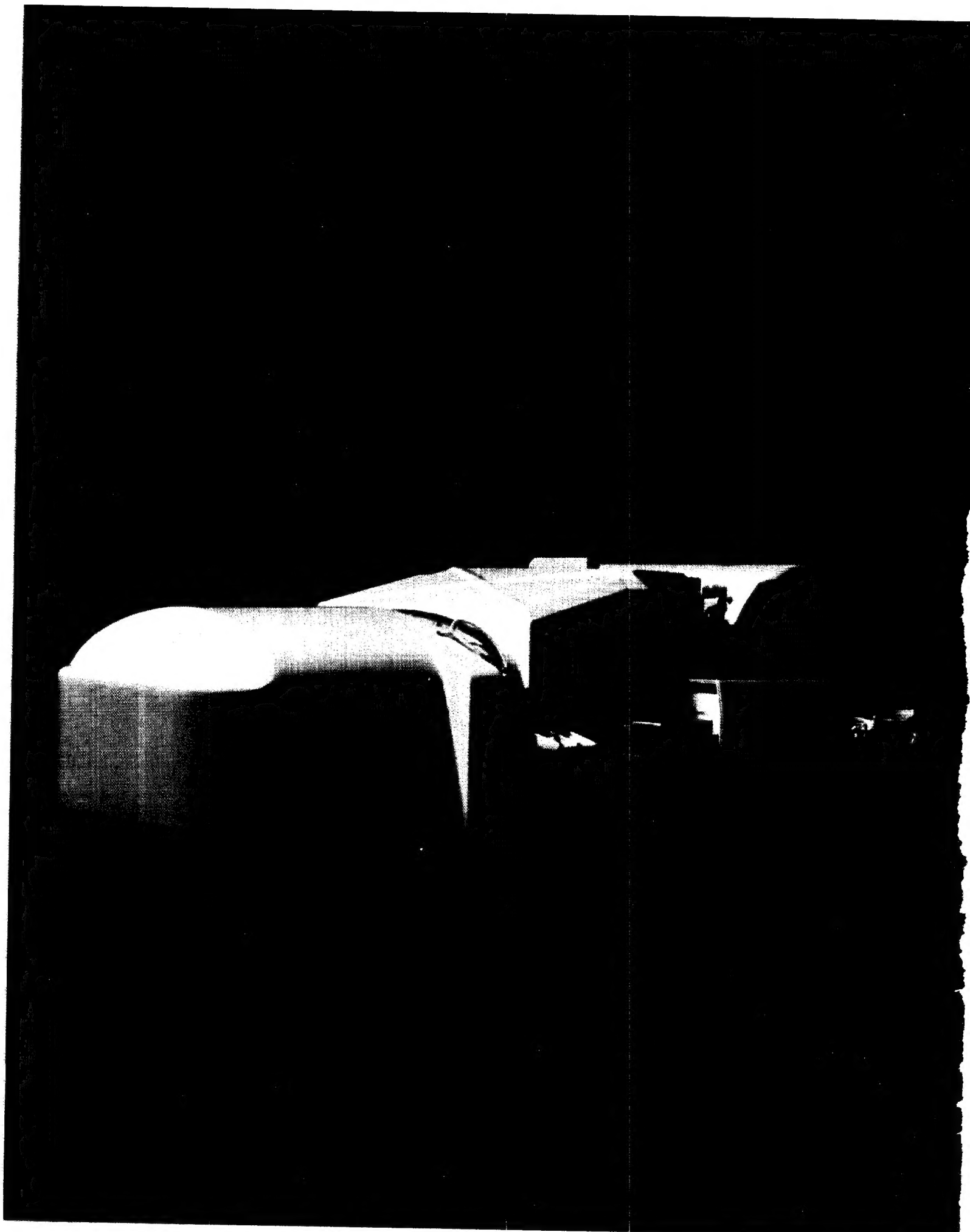
The lower operating profits from continuing operations were primarily in our two major government-oriented divisions, Optical Systems and Applied Technology. There were three principal reasons for these lower profits: first, profits were affected by the costs of entering several new areas of business which make use of the photo-optical and electronic technologies in which we have pioneered; second, the Viet Nam War caused a shift of government priorities which resulted in delays in funding for important Itek programs; and third, we experienced expensive overruns on a few contracts, some of which, however, have future promise for important profits.

Altogether, these problems in our government divisions reduced by \$1.45 per share the profits we had expected in 1968.

We have identified the principal problem areas in our government divisions, and corrective action has been taken.

In another area of government operations, the Wayne-George Division, producer of precision optical encoding and measurement devices, increased its sales and improved its profit margins.

Our government divisions entered 1969 with a backlog of \$83.5 million, compared with \$49.3 million a year earlier.



In our commercial operations, the Business Products Division continued its uninterrupted pattern of growth.

During the last five years, we have established a major position in the central duplication market. As a result, our business product sales have tripled since 1963, and operating profit has increased by a much larger factor. Several new products were introduced to broaden and strengthen this area of our business during 1968.

To open up foreign markets for present and future business products, Itek Business Products / International was established in 1968 with offices in Dusseldorf, Germany. Initial direct marketing will be in West Germany and the Scandinavian countries, with later expansion into France, Italy, the Benelux countries, and Japan. We estimate that the potential for direct sales of our commercial products abroad could allow the division's sales and profits to increase substantially.

Our other commercial division, Pennsylvania Optical, added the new Sunspree™ "fashion" sunglass line to its optical products. The division also makes reading glasses, lenses for safety eyewear, and some of the smaller optical elements used in systems produced by the Optical Systems Division. Operating income last year fell below the 1967 level, largely because of wage increases and production capacity problems. The production problems have now been resolved, and we expect the division to contribute its highest profits to date in 1969.

Operations of Doban Labs, Inc. and the Rolor Division were discontinued to eliminate a drain on company finances and to free money and management time for higher priority programs.

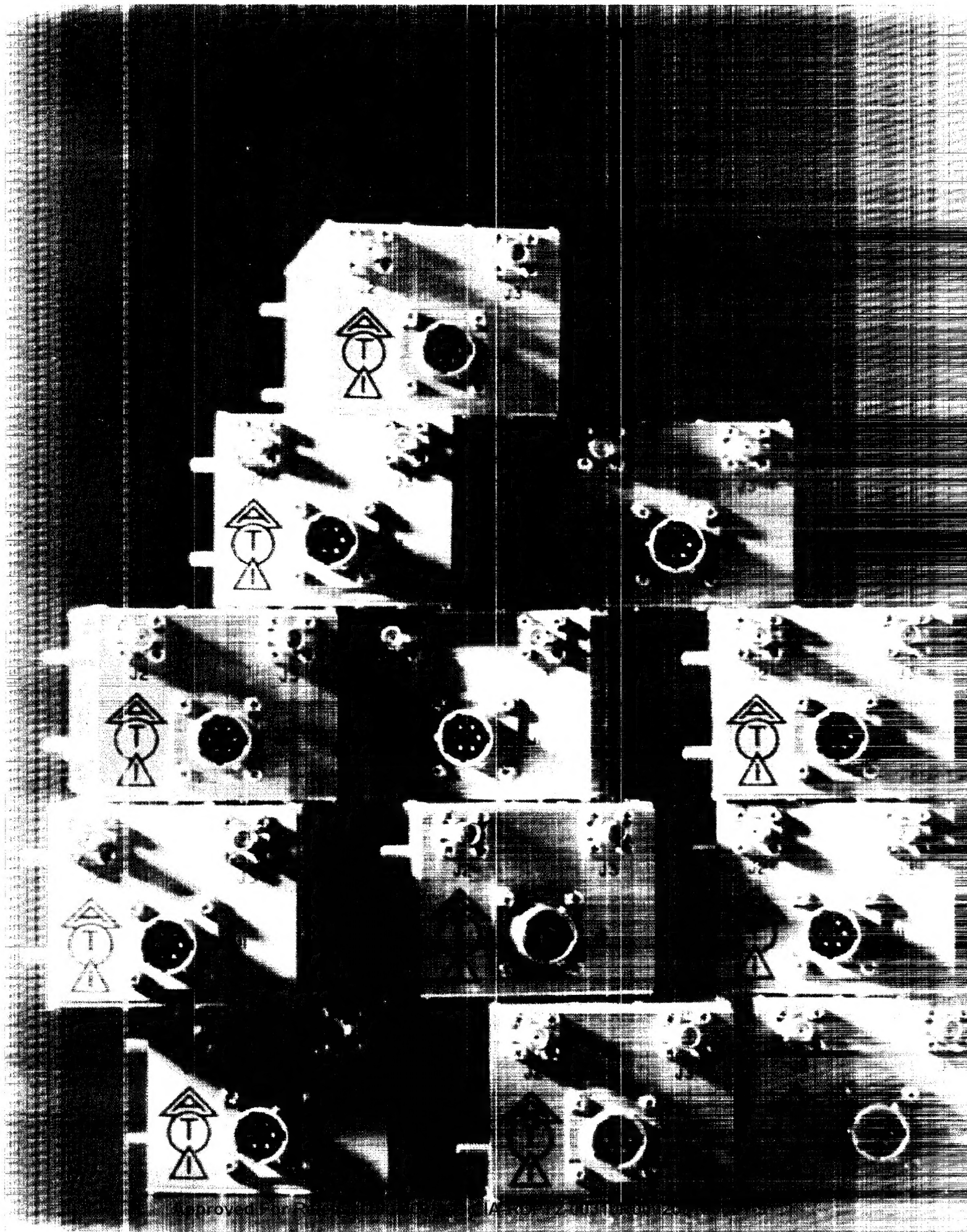
Doban Labs, Inc. was acquired as a result of the merger of Applied Technology, Inc. into Itek. Its ScoRite automatic bowling scoring system encountered unexpected reliability problems which delayed introduction to the market. Although we substantially improved the reliability during the year, the product is outside of our fields of business and we concluded that we should offer Doban for sale rather than continue to develop ScoRite ourselves.

Rolor was acquired to provide manufacturing and marketing for Itek photographic processing developments. Its 1968 operating losses resulted mainly from the refusal of a major customer to accept delivery of processing machines which were contracted for. To avoid any further operating losses, we discontinued Rolor as a separate division and moved its Graphic Arts Transflo™ processor line to Itek Business Products, which has suitable manufacturing and marketing capabilities.

Looking at 1969, operating profits are currently forecast to be higher than our previous record year, 1967. However, increased taxes and expenditures for new programs are expected to restrict overall earnings to approximately the 1967 level.

The Optical Systems and Applied Technology divisions strengthened their positions for 1969 by broadening their markets during 1968.

Optical Systems has entered important new areas of business. These include: tactical reconnaissance cameras, submarine periscopes, night-vision and night-fire-control systems, and photographic processing chemistry for special applications. In all of these areas, the chances of obtaining significant contracts are high.



By the beginning of 1969, the Applied Technology Division had entered several new markets, and broadened its customer base beyond radar homing and warning systems for the Air Force.

Contracts for a new family of airborne and ground playback recording systems exceed \$3 million. Mission reconstruction and data analysis systems of this type promise a significant market potential for several years to come. The division's Microwave Lab continues to exploit its unique position in ultra-stable signal sources and solid state amplifiers by offering several new products designed to compete, in a limited portion of the total market, with klystron and traveling wave tube devices.

The present backlog for radar homing and warning systems extends through 1970 and well-identified future procurements offer significant production rates through 1971. In addition, the government has approved plans to pursue sales of all our countermeasures equipment to the NATO countries, which will extend the life of these products from three to five years.

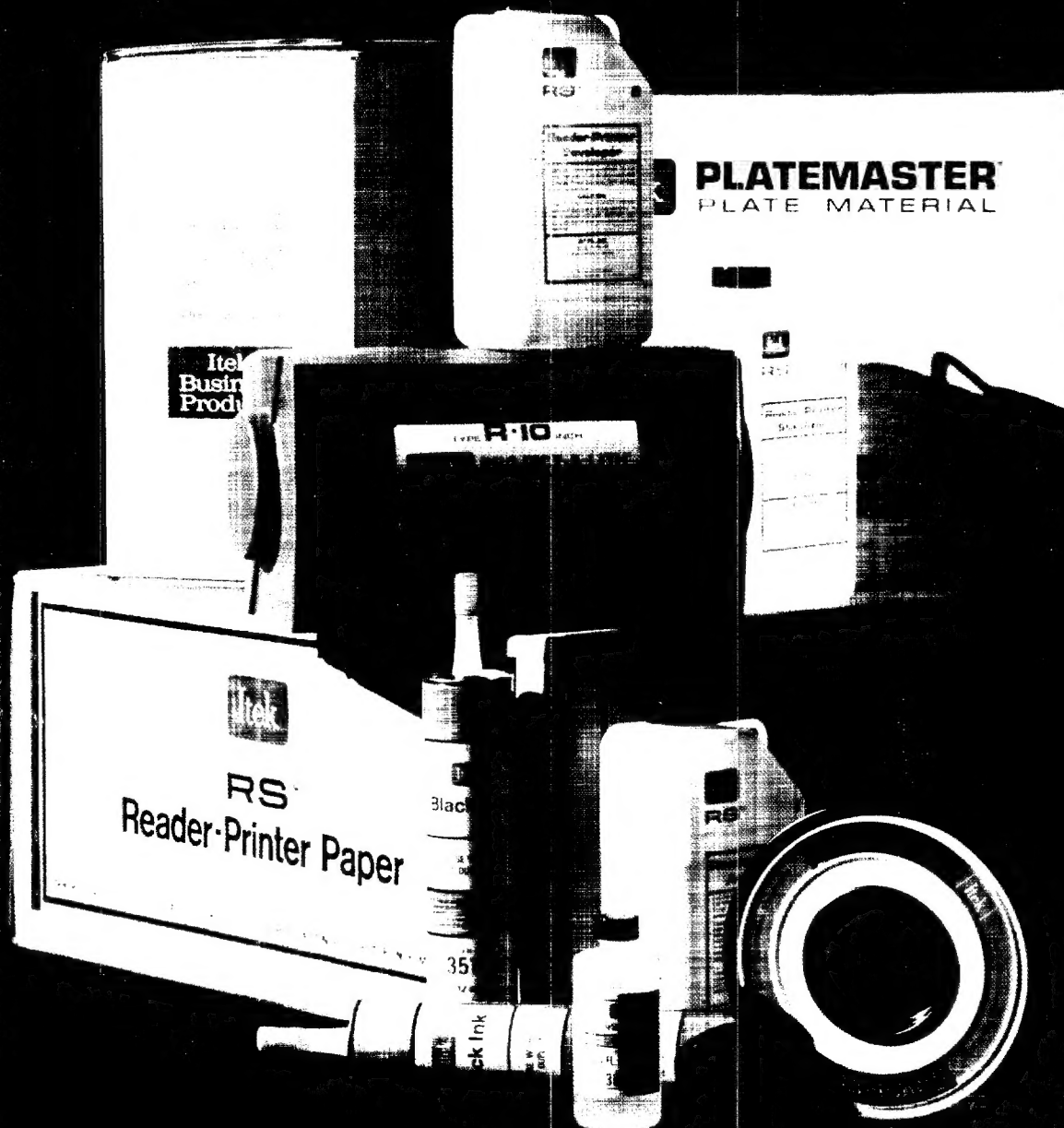
In commercial operations, Itek Business Products is in the process of expanding into several new market areas.

The division has established a full line of microfilm products for the engineering documentation market, including proprietary aperture and copy cards, and now has a major marketing force devoted exclusively to this product line. This market is currently larger than \$130 million a year, and we expect to expand our share rapidly from its present limited level. In 1968, microfilm product sales through our own marketing organization were 50 percent greater than in 1967, and in 1969 we expect these sales to be substantially ahead of 1968.

Products using the Itek RS™ process promise to broaden our proprietary product base, and to improve associated profit margins. At the end of 1967, we introduced an Itek RS paper for use in our 18-24 Reader-Printer for microfilm enlargements, or "blowbacks." This paper has now been on the market a year and has been well-accepted, although there are some problems which we expect to solve this year. Its price to the user is less than that of the conventional silver halide paper which it replaces, its quality is higher, and its processing speed is double. Even at the initially low start-up volumes, gross margins for this product last year were at a level normally associated with successful proprietary products.

We have also made progress in Itek RS film products. These high quality, high resolution, continuous-tone films can be produced on conventional, full-scale production equipment, and the film is expected to compete with silver halide and diazo films for duplication purposes by providing higher quality, at much faster processing speeds. We expect the Itek RS process to have application in duplicate aerial film, as well as the microfilm, microfiche, and other duplicate film markets now largely served by silver halide and diazo materials. We were recently awarded a \$380,000 contract to design and develop prototype production equipment for a specialized application of high-volume printing and processing of Itek RS duplicating film. We believe its resolution and processing capabilities are ideally suited for such applications and are superior to existing films.

Altogether, the duplicate film market for which we now see Itek RS applications is probably in the order of \$100 million a year. We are just starting in this area, however, and it will take time to achieve a significant penetration of this market.



Another potentially profitable area is offset lithography, a field in which we already have a strong position in one market segment with our Project-a-Lith® paper plate system. We are now beginning field tests of a family of Itek RS metal lithographic printing plates. These high quality, presensitized plates are expected to be capable of high resolution halftone reproduction and, in some cases, of long press runs. As part of our development evaluation of this product, a number of successful press runs have been made in a commercial plant with Itek RS plates. Our initial field tests demonstrate that certain types of Itek RS plates are capable of over one-half million impressions.

The total annual metal lithographic plate market today is more than \$150 million, and it has an estimated annual growth rate of more than 10 percent. We believe the Itek RS family of plates has quality and cost advantages which make it potentially competitive in several segments of this large market. Depending upon the success of field trials and the completion of product development programs, we hope to introduce the first product within a year. Additional plate products currently under development in our laboratories should come into the market in the future. As with the duplicate film market, significant penetration will take time.

In 1968 our company-sponsored research, development, and patent activities were approximately 7.5 percent of sales. In 1969 we expect our research and advanced development expenditures to increase by about 25 percent. In contrast, our product development and market introduction expenses will be up 75 percent over 1968. While the near-term introduction of new products

will represent an increased drain on profits, we believe that the profit potential of these products is sufficiently great to fully justify such a course.

In earlier annual reports, I have described Itek's plans for long-term growth. Briefly summarized, these goals are:

- The concentration of research and development effort in areas which show greatest promise for multiple commercial and government products, particularly new photographic and reproduction materials, new and advanced optical lenses, and new information handling systems. (1963)
- Provision for continued growth by investing each year increasing amounts in research, in development of new products from research, and of new markets for those products. (1964)
- The building of a company in which marketing will become as strong as technical skills, but without in any way slowing our technical growth. We are bringing research and marketing closer together, and are accelerating the transition of new technologies and proprietary products from the laboratory to the marketplace. (1965)
- A program of "concentric growth," particularly growth through internal expansion, into technologies and markets which bear a logical relationship to the company's activities. (1966)
- To become an increasingly important factor in the information industry, accomplishing this by using our photographic, optical, and electronic technologies to

build both graphic and digital information systems. Photosensitive films and papers will provide a continuing and profitable supply business as part of these information systems. (1967)

Together, these plans make up what might be called Itek's philosophy of business. In each of the president's letters, I have pointed out the high costs and risks of pioneering new technologies and bringing new products successfully and quickly to market. In our opinion, the potential rewards merit the costs and risks.

Although 1968 was a setback in terms of sales and particularly earnings, it was a year of progress and of promise in terms of these long-range goals. We anticipate a recovery in 1969 leading towards a sales level of at least \$300 million by 1973, with improving profit margins, largely from internal growth. At the same time, we will continue to seriously consider unusual acquisition and product opportunities related to our areas of business that would add further to sales and profits.



Franklin A. Lindsay

March 14, 1969

Business Review for 1968

GOVERNMENT SYSTEMS The two principal Itek divisions doing business with the government are Optical Systems, in Lexington, Mass., and Applied Technology, in Palo Alto, California.

The Optical Systems Division grew from the Boston University Physical Research Laboratories, which formed the nucleus of Itek when it was founded in 1957 – Year One of the Space Age. The B.U. group had pioneered in panoramic aerial photography and photographic space tracking.

The field of aerial photography began with wet-plate cameras in tethered aerial balloons over a century ago, but it did not become a major technology until the reconnaissance demands of World War II. Since that time, the sophistication of airborne cameras has accelerated along with the development of higher-flying, faster-moving vehicles to carry them.

Aerial reconnaissance is not one but several sciences: optical systems – lenses and mirrors – capable of gathering the maximum amount of light and the finest detail from great distances; special films sufficiently sensitive to record all that the optics transmit; film transport and camera movement mechanisms to compensate for real and apparent subject motion – a vehicle flying far overhead or the ground rushing below; processing equipment to bring out the maximum capabilities of the film; and photoanalysis systems to help human photointerpreters learn as much as possible from each picture.

The Optical Systems Division has traditionally specialized in large photographic systems designed for strategic reconnaissance. Some lenses and mirrors are over 6 feet in diameter, with surfaces so smooth that a millionth-of-an-inch variation is called a “hill” or “valley” and must be corrected. The film transport mechanisms and other components of such systems are correspondingly precise.

Itek optical systems must be tested under extreme environmental conditions to ensure consistent high quality operation in a variety of circumstances – very high or low temperatures, for example, or varying atmospheric pres-

tures. These tests are carried out in Itek's specially designed optical facility in Lexington.

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During 1968, Optical Systems broadened its marketing position by moving into new business areas and developing new applications of proven technological capabilities. These include:

- Tactical reconnaissance cameras. Building upon its experience in the strategic systems field, the division is expanding into the market of smaller, less expensive high-production-run cameras for tactical use, such as those used in rapid-return low-level surveillance.
- Submarine periscopes. This field has long been dominated by a few companies specializing in underwater optics. Itek is currently working on a development contract for the Navy, and hopes to compete successfully in this field.
- Night-vision and night-fire-control systems. This is one of the most rapidly expanding government markets. It is a practical application of the blending of optics and electronics, and provides an introduction to government customers with whom Itek has done relatively little business. We are now manufacturing prototype night-vision and targeting systems for the Army.
- Photographic processing chemistry for special applications. Of particular significance is a new Itek contract to design and produce prototype equipment for high-volume processing and printing of Itek RS duplicating film.

Itek acquired Applied Technology, Inc., a successful manufacturer of electronic warfare equipment, for two primary reasons: first, the Viet Nam War has made it clear that electronic warfare is here to stay, and that systems once considered optional aboard military aircraft are now considered essential; second, it is apparent that the future of information systems lies in the combined technologies of optics and electronics.

In the reconnaissance field, Itek is now the only company with major capabilities in both optics and electronics.

Founded in 1959, Applied Technology grew principally through design and production of radar homing and warning systems and electronic countermeasures equipment. Basically, these systems warn an operator when he is being scanned by enemy radar, giving him the opportunity to take evasive action or to "jam" the intruding signals. Applied Technology systems are installed aboard military aircraft, ships, and ground vehicles. Currently, systems are being installed on F-4E "Phantom" jets at Itek's Lincoln Aerospace Center in Nebraska.

Applied Technology is also expanding its markets to include new products for new customers. The division's Microwave Lab is supplying components for some of the newest doppler radar systems. Additionally, new markets are opening for recently developed active "jammer" components, microwave test equipment, and a flight - line test set which is expected to become standard equipment throughout the armed services.

B**USINESS PRODUCTS** Itek's first major venture into the commercial business market came in 1959 with the acquisition of Photostat Corporation, Rochester, N.Y., prominent in the design and manufacture of photocopying machines and offset lithography printing equipment. Photostat grew into the Itek Business Products Division, which has become a major U.S. manufacturer of equipment for the microfilm, offset printing, and photocopy markets.

With the acquisition of the microfilm business of Scionics Corporation in 1968, Itek Business Products began marketing complete systems for engineering documentation, the largest segment of the growing micro-records market. The systems include:

- Automatic cameras for reducing large original drawings to small frames of microfilm.
- Microfilm processors that meet stringent military specifications for retaining maximum image quality.
- Aperture cards, copy cards, card cutters, and viewer-mounters.
- Several types of reader-printers (including those using the Itek RS process) for viewing and reproducing micro-filmed documents.
- Automatic platemaking equipment and offset printing units for quantity reproduction from microfilm.

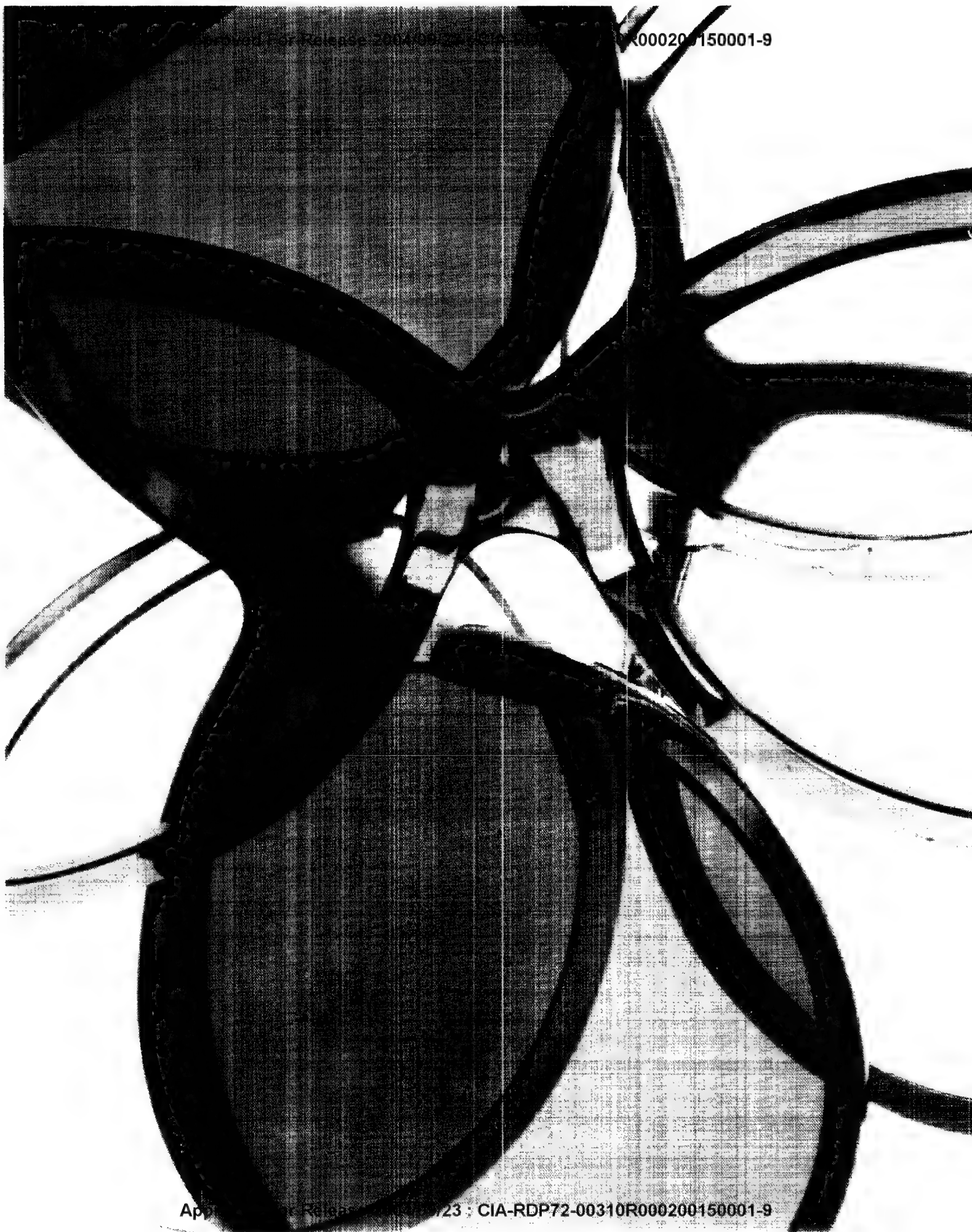
Itek Business Products also markets many of the supplies necessary for the operation of these systems, including chemicals and reader-printer paper.

The complete Itek microfilm system works this way:

An original full-sized engineering drawing is photographed on a frame of 35mm microfilm – the same size film used in most small amateur cameras. The film is processed by a machine designed to retain on the image all of the detail of the original. The frame of processed film is then permanently heat-sealed into an Itek aperture card – a standard-sized punched or printed tab-card with a “window” for the film. Thousands of these cards, or unit records, can be stored in a small space and quickly

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retrieved either manually or by computer selection. High quality duplicates, or copies, can be made by hand and automatically, for distribution to other locations. When an aperture card is inserted in a reader-printer, the viewer sees a crisp, 18" by 24" image of the film on a screen, and can make high quality full-sized copies by touching a button.

Offset platemaking – the Itek Platemaster™ line – forms a major part of Itek's commercial business. With traditional platemaking systems, an original is photographed, a negative processed, and a light-sensitive paper or metal plate exposed to the negative. The plate then has to be wiped with chemicals before going on the press. With the Platemaster unit, the positive plate is exposed directly to the original, and emerges within seconds fully prepared to go directly on the press.

As part of a continuing effort to upgrade products in the offset line, the large Mark III Itek Platemaster unit was introduced in 1968. This model continues to improve the level of customer convenience and equipment performance, and is expected to spearhead new placements as well as to create a replacement demand in earlier installations.

A new, larger Positive Process Photostat™ photocopy unit was also introduced in 1968. This unit is of particular interest to the advertising and publication fields for sizing, layout, and proofing applications. It is a unique product for the market served in that it produces high quality posi-

tive prints directly from original copy, eliminating the traditional two-step operation of positive original to negative print back to positive print. The Business Products Division is the sole source of supplies for this unit.

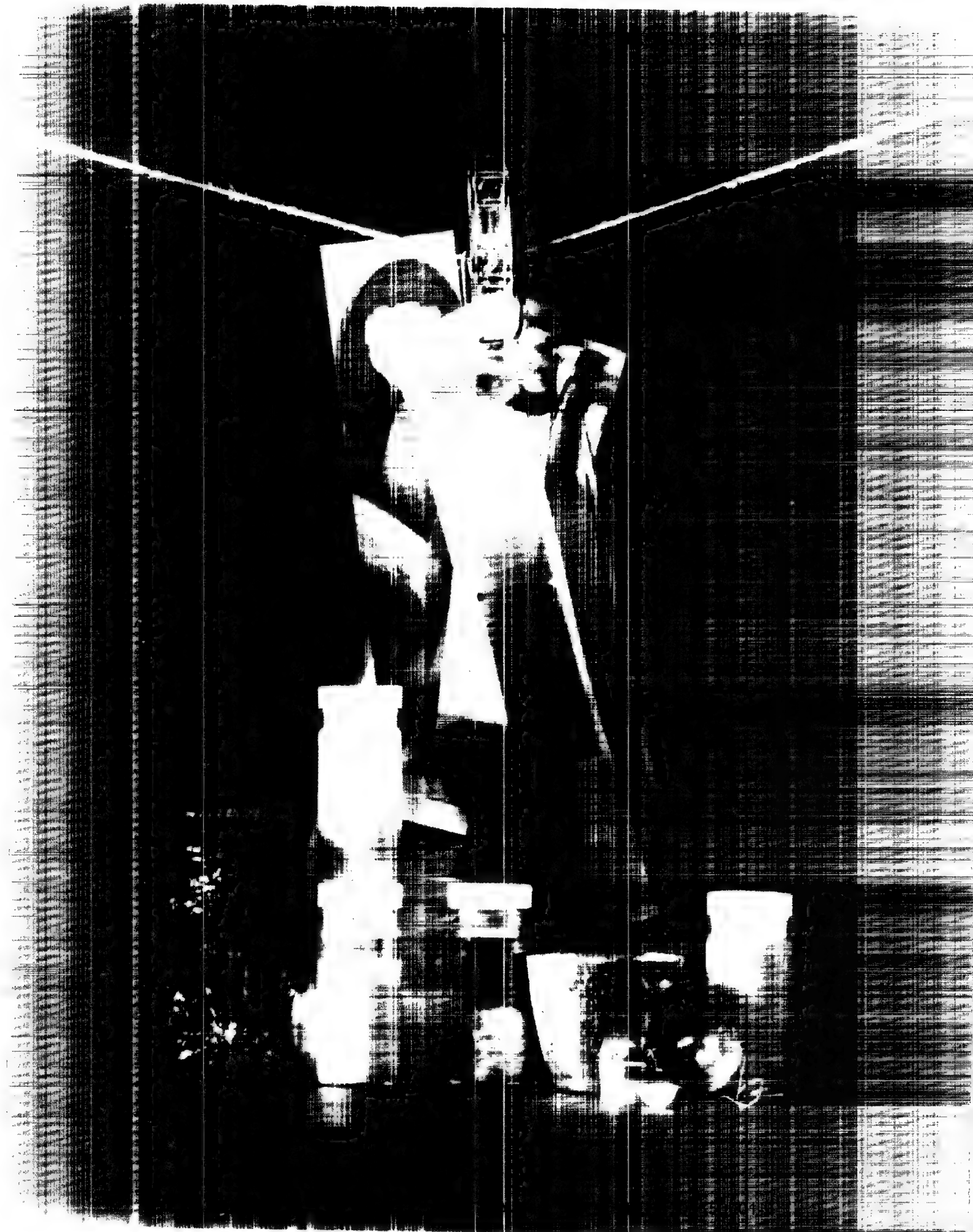
OPTICAL PRODUCTS Two of Itek's divisions manufacture special kinds of optical products for government and commercial markets.

The Pennsylvania Optical Division, which became part of Itek in 1966, is located in Reading, Pennsylvania. The division has long-established product lines of safety lenses, ready-to-wear reading glasses, frames, sunglasses, and precision optics.

In 1968, Pennsylvania Optical entered the "fashion" tinted glass market with the Itek Sunspree line. The lenses of these quality glasses, in a wide spectrum of colors from rose to violet, are heat-tempered, optically polished glass that resists scratching and is practically unbreakable. Various styles for men and women are being introduced throughout the country.

The market for safety lenses is related to general industrial activity, and both have grown substantially in recent years. During 1968, Pennsylvania Optical added new styles of frames for safety glasses, and both sales and profits were well above initial goals.

In addition, the division supplies some of the small optical elements used in systems produced by the Optical Systems



Division, and has ground and polished some of the space vehicle windows for the Apollo program.

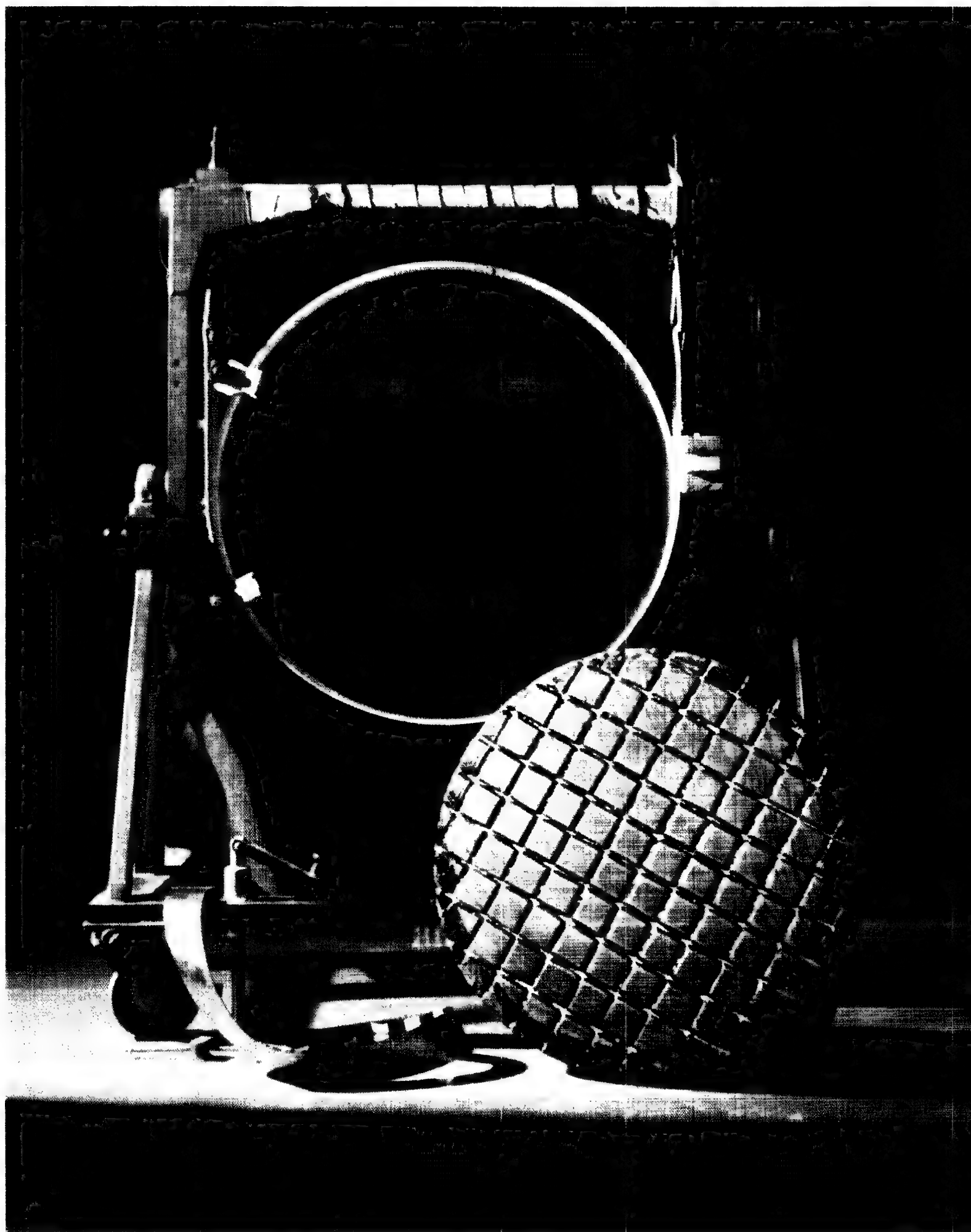
The Wayne-George Division, in Newton, Mass., was acquired by Itek in 1967. This division produces a line of electro-optical devices called optical encoders, which are used in submarine navigation systems, tracking radars, automatic machine tools, and other types of equipment. These mechanisms measure linear or rotary motion with very high accuracy, converting the measurements into electrical signals that can be fed into high-speed computers.

During 1968, this division introduced a new line of rotary encoders containing integrated-circuit electronics, and began deliveries of another type of encoder which is believed to be the most accurate available.

RESEARCH AND DEVELOPMENT Along with building engineering capabilities, production capacity, and effective marketing organizations, a technologically oriented company must continue to invest in its future through research and development. Itek's two primary research laboratories, the Optics Laboratory and the Lexington Research Laboratories, pursue programs leading towards new products and processes. Each Itek division also carries on extensive development and engineering efforts in its specific areas of interest.

One example of a successful chain of events leading from the laboratory to the marketplace is the application of the proprietary Itek RS process to a variety of products and supplies.

The Itek RS process is a family of new photosensitive materials which can be applied to practically any surface to produce high quality photographic images. Paper of almost any grade can be coated with Itek RS materials in the daylight on standard high speed paper-coating mills. This new development has many important characteristics in its various embodiments. These include high processing speeds for continuous printing, high resolution, the capability of over-printing or adding on, low cost, and



archival quality. Although present Itek RS printing papers use silver to form the final image, Itek is working on the development of products using non-precious metals for the visible image.

Itek RS paper is being used in one model of the 18-24 Microfilm Reader-Printer, which has been on the market since 1967.

During 1968 Itek worked with the Agfa-Gevaert group in Belgium with the objective of manufacturing Itek RS duplicating film, and we are currently considering expanding the venture. Very recently Itek and Agfa-Gevaert found that the Itek RS process makes it possible to combine some of the critical steps in film manufacture. If this proves feasible in full production, the cost of manufacturing our film should be distinctly less than for silver halide films, and cost-competitive with at least the higher grades of diazo film, over which the Itek RS process has very substantial quality advantages.

A new development in our laboratories is a family of Itek RS metal lithographic plates. These high quality, pre-sensitized offset printing plates are expected to be capable of high resolution half-tone reproduction and, in some cases, of long press runs.

Efforts to increase photographic speeds of our films are continuing and good results have been achieved in the laboratory. Although the films cannot be considered to have amateur camera speed, Itek's laboratories have demonstrated a 100-fold increase in speed over that which was

obtainable two years ago, and progress continues.

Another research and development area in which Itek is working is the market for copier-duplicators, lying between the convenience, or office, copier and central duplication equipment.

In optics, we have automated the testing of optical surfaces and are using this as a production tool. Computer handling of this information has led to automation of surface polishing and testing, and our success in this field indicates that automation of the entire optical manufacturing process is likely to be achieved.

Other advances which can in the future develop from our optics technology include optical memories using laser holography for very high speed, high-density storage of information, and major improvements in testing optical lenses and mirrors by use of hologram interferometry and computers.

Itek scientists and engineers are currently working on research programs relating to proprietary dry photographic systems other than Itek RS for applications in such areas as: graphic arts proofing, and microfilm recording and blowback systems; metallic and non-metallic printing plates, other than the Itek RS plates previously mentioned; new kinds of display and information storage systems; and application of automatic control techniques to general machine tools in which the computer directly provides on-line control of the entire manufacturing process.

Itek, Itek RS, Itek Platemaster, Project-a-Lith, Photostat, Transflo and Sunspree are trademarks of Itek Corporation.

**Consolidated
Statements of Income**
For the Years Ended
December 31, 1968 and 1967

	1968	1967 (Note 1)
Net Sales and Revenues from Contracts (Notes 2 and 4)	\$126,260,424	\$129,197,464
Costs and Expenses (Notes 2, 4, 6 and 7):		
Cost of sales	96,535,401	94,854,437
Selling expenses	11,255,507	9,645,437
General and administrative expenses	15,125,354	14,555,253
Total costs and expenses	122,916,262	119,055,127
Operating Income	3,344,162	10,142,337
Other Income (Expense) (Note 2):		
Interest expense	(570,617)	(478,281)
Miscellaneous, net	113,686	223,297
Income from Continuing Operations Before Federal Income Taxes	2,887,231	9,887,353
Provision for Federal income taxes (Notes 2 and 5)	1,295,000	4,684,000
Income from Continuing Operations	1,592,231	5,203,353
Loss from operations discontinued in 1968, less applicable Federal income tax credits of \$1,160,000 in 1968 and \$65,000 in 1967 (Note 2)	(1,000,264)	(480,099)
Income before Extraordinary Items	591,967	4,723,254
Extraordinary Items, net (Note 3)	(23,017)	—
Net Income	\$ 568,950	\$ 4,723,254
Earnings Per Share of Common Stock (based on average shares outstanding during each year):		
From continuing operations	\$.70	\$2.43
Before extraordinary items	.26	2.21
Extraordinary items, net	(.01)	—
Net Income	\$.25	\$2.21

The accompanying notes are an integral part of these financial statements.

**Consolidated
Statements of Retained
Earnings**
For the Years Ended
December 31, 1968 and 1967

	1968	1967 (Note 1)
Balance at Beginning of Year (including \$1,177,952 deficit in 1967 arising from 1968 merger accounted for on a pooling-of-interests basis)	\$16,141,863	\$11,506,806
Add: Net income	568,950	4,723,254
Less: Dividends paid by pooled companies prior to merger or acquisition	—	(88,197)
Balance at End of Year	\$16,710,813	\$16,141,863

**Consolidated
Statements of Common
Stock**
For the Years Ended
December 31, 1968 and 1967

Balance at Beginning of Year (including \$17,387 in 1967 arising from 1968 merger accounted for on a pooling-of-interests basis)	\$2,244,993	\$2,055,906
Add: Exercise of employee stock options	18,425	34,568
Sale of common stock to employees under the Company's stock purchase plan	10,302	6,613
Sale of equivalent common stock by pooled companies prior to merger or acquisition	829	3,954
Conversion of debentures into common stock	—	143,952
Balance at End of Year	\$2,274,549	\$2,244,993

**Consolidated Statements
of Capital in Excess
of Stated Value**
For the Years Ended
December 31, 1968 and 1967

Balance at Beginning of Year (including \$410,501 in 1967 arising from 1968 merger accounted for on a pooling-of-interests basis)	\$22,130,616	\$13,367,432
Add: Exercise of employee stock options	374,769	619,134
Sale of common stock to employees under the Company's stock purchase plan	938,633	773,125
Sale of equivalent common stock by pooled companies prior to merger or acquisition and other capital transactions	162,311	77,688
Conversion of debentures into common stock less unamortized debenture issuance expense applicable thereto	—	7,637,506
	23,606,329	22,474,885
Less: Expenses incurred in connection with mergers and acquisitions accounted for on a pooling-of-interests basis	78,859	344,269
Balance at End of Year	\$23,527,470	\$22,130,616

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets December 31, 1968 and 1967	Assets	1968	1967 (Note 1)
	Current Assets:		
	Cash	\$ 3,131,808	\$ 1,826,447
	Marketable securities, at cost, which approximates market value	144,365	1,323,310
	Accounts receivable, less reserves of \$188,000 in 1968 and \$180,000 in 1967	17,068,996	19,827,657
	Unbilled contract costs and fees	6,365,294	6,283,852
	Inventories, at lower of cost (first-in, first-out) or market (Note 4)	17,073,474	15,688,453
	Refundable and prepaid Federal income taxes (Note 5)	2,276,879	—
	Prepaid expenses	1,082,609	932,015
	Total current assets	47,143,425	45,881,734
	Investment in and Advances to Unconsolidated Companies (Note 1)	303,862	—
	Equipment on rent to Customers, at cost, less accumulated depreciation of \$639,721 in 1968 and \$596,997 in 1967 (Note 6)	989,701	1,061,814
	Plant and Equipment, at cost (Note 6):		
	Land, buildings and leasehold improvements	13,964,054	11,383,550
	Machinery and equipment	19,892,027	16,888,571
	Accumulated depreciation and amortization	(13,451,520)	(11,192,391)
	Net plant and equipment	20,404,561	17,079,730
	Other Assets and Deferred Charges	319,790	684,248
	Total Assets	\$ 69,161,339	\$ 64,707,526

The accompanying notes are an integral part of these financial statements.

Liabilities and Stockholders' Investment	1968	1967 (Note 1)
Current Liabilities:		
Notes payable, primarily to banks	\$10,624,895	\$ 9,028,797
Accounts payable	7,625,901	6,905,469
Accrued expenses	6,423,670	5,186,453
Federal income taxes	—	1,398,848
Total current liabilities	24,674,466	22,519,567
Mortgage Note Payable and Other Long-Term Debt	965,041	778,487
Deferred Federal Income Taxes (Note 5)	1,009,000	892,000
Commitments (Notes 7 and 8)		
Stockholders' Investment (Notes 1 and 9) :		
Preferred stock, par value \$5 per share, authorized 500,000 shares, none issued	—	—
Common stock without par value, stated at \$1 per share, authorized 3,000,000 shares, outstanding 2,274,549 shares at December 31, 1968 and 2,244,993 shares at December 31, 1967	2,274,549	2,244,993
Capital in excess of stated value	23,527,470	22,130,616
Retained earnings	16,710,813	16,141,863
Total stockholders' investment	42,512,832	40,517,472
Total Liabilities and Stockholders' Investment	\$69,161,339	\$64,707,526

The accompanying notes are an integral part of these financial statements.

**Consolidated Statements
of Source and
Application of Funds
For the Years Ended
December 31, 1968 and 1967**

	1968	1967 (Note 1)
Funds Were Received From:		
Net income	\$ 568,950	\$4,723,254
Depreciation and amortization charges	3,202,786	2,862,827
Funds provided by operations	3,771,736	7,586,081
Exercise of employee stock options	393,194	653,702
Sale of common stock to employees under the Company's stock purchase plan	948,935	779,738
Sale of equivalent common stock by pooled companies prior to merger or acquisition and other capital transactions	163,140	81,642
Increase in long-term debt	186,554	—
Other	481,458	216,967
Total Funds Received	5,945,017	9,318,130
Funds Were Used For:		
Plant and equipment additions, net	6,455,504	5,471,349
Expenses incurred in connection with mergers and acquisitions	78,859	344,269
Net investment in and advances to unconsolidated companies	303,862	—
Reduction of long-term debt	—	1,614,840
Dividends paid by pooled companies prior to merger or acquisition	—	88,197
Other	—	161,432
Total Funds Used	6,838,225	7,680,087
Increase (Decrease) in Working Capital	\$ (893,208)	\$1,638,043

The accompanying notes are an integral part of these financial statements.

**Notes to
Financial Statements**
For the Years Ended
December 31, 1968 and 1967

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Itek Corporation and all its majority owned domestic and Canadian subsidiaries. Itek's investments in other companies are recorded in the accompanying consolidated balance sheets at cost less Itek's equity in their 1968 losses amounting to \$47,000. All material intercompany balances and transactions have been eliminated in consolidation.

The Scionics Corporation (Scionics) was merged into Itek Corporation on September 20, 1968. The Company issued 18,300 shares of its common stock in exchange for all the outstanding common stock of Scionics. The merger was accounted for as a pooling-of-interests and accordingly the 1967 consolidated financial statements for Itek Corporation have been restated to include the 1967 sales and net loss of Scionics of \$231,165 and \$575,815 respectively.

(2) Discontinued Operations

During 1968, the Company decided to discontinue and close down the operations of a division and a subsidiary. The operating losses of the division and subsidiary for the year 1967 and for the periods in 1968 prior to the decision to discontinue and close down, less applicable Federal income tax credits, have been separately set forth in the accompanying consolidated statements of income. Accordingly, net sales of \$1,286,939 in 1968 and \$2,352,995 in 1967 and related costs and expenses, Federal income tax credits, etc. have been excluded from the applicable captions in the accompanying consolidated statements of income.

The costs and expenses related to the close-down of these two operations, less applicable Federal income tax credits, have been included as extraordinary items in the accompanying consolidated statements of income. See Note 3.

(3) Extraordinary Items

The extraordinary items for 1968 in the accompanying consolidated statements of income are as follows:

	Income (Expense)
Gain from termination of an agreement with a customer of The Scionics Corporation, less applicable Federal income taxes of \$402,000	\$ 358,972
Federal income tax reduction to The Scionics Corporation resulting from the carryforward of its prior years losses	283,000
Close-down of the operations of a division and subsidiary (Note 2) -	
• Expenses and losses related to the close down, less applicable Federal income tax credits of \$1,383,000	(1,235,989)
• Additional Federal income tax credit resulting from the difference between the book and tax basis of the investment in the subsidiary	571,000
Extraordinary items, net	<u>\$ (23,017)</u>

**(4) Inventories and Methods of
Recording Profits on Contracts**

Inventories at December 31, 1968 and 1967 were as follows:

	1968	1967
Finished goods	\$ 6,696,912	\$ 5,319,394
Contract and other work in process less progress payments of \$5,911,000 in 1968 and \$3,125,000 in 1967	5,744,258	6,267,710
Raw materials	4,632,304	4,101,349
Total inventories	<u>\$17,073,474</u>	<u>\$15,688,453</u>

The Company follows the practice of recording profits on cost reimbursement type contracts as a percentage of costs incurred and on fixed price contracts as a percentage of the sales value of shipments made. On certain fixed price contracts on which the sales prices (approximately \$5,200,000 at year end) have not been established at the time of delivery, profits are recorded as a percentage of the estimated final sales value of shipments made. The percentages used in recording profits represent the best estimate of the anticipated profit percentages to be realized on the completed contracts. If a loss is indicated on any contract in process, provision is made for the entire estimated loss at that time.

(5) Accounting for Federal Income Taxes

The Federal income tax provision has been computed in accordance with the comprehensive income tax allocation method which the Company has consistently followed. This method recognizes the tax effects of all income and expense transactions included in the current year's income statement regardless of the year the transactions will be reported for tax purposes. Investment tax credits, amounting to \$218,000 in 1968 and \$212,000 in 1967, have been reflected as a reduction in the Federal income tax provision in the year that the credits arose.

The refundable Federal income taxes in 1968 represent the estimated tax refund resulting from the carryback of the current years net loss for tax purposes and the refund of the estimated tax payments made during 1968. The prepaid taxes result from expenses included in the current and prior years income statements that will be deducted for tax purposes in the future. The deferred Federal income taxes result from the use of accelerated depreciation methods for tax purposes which methods allow greater depreciation deductions than are included in the income statements.

(6) Depreciation and Amortization of Plant and Equipment

The Company provides depreciation and amortization on plant and equipment by charges to income in amounts estimated to allocate the cost of these assets over the period of their estimated useful lives. Buildings and leasehold improvements are depreciated and amortized principally on the straight-line method; and machinery and equipment and equipment on rent to customers are depreciated on either the straight-line, sum-of-the-years' digits, or declining balance method.

(7) Retirement Plans

The Company provides for retirement benefits for substantially all employees, after minimum periods of employment, under various contributory and non-contributory qualified pension plans. The provisions for retirement benefits amounted to \$778,000 in 1968 and \$597,000 in 1967. In 1968, the Company adopted the policy of amortizing the prior service costs of its various plans over a twenty-five year period, which period approximates the average remaining service lives of the covered employees. This represents a change from prior years in the amortization period for these costs, however, this change did not have a material effect on the accompanying financial statements. The Company's policy is to fund pension costs in approximately the amounts accrued. At December 31, 1968, the actuarially computed value of vested benefits approximated the total of the pension funds and recorded year-end pension accruals for all but two of the Company's plans. The vested benefits exceeded the pension funds and pension accruals for these two plans by \$354,000, which amount will be funded in the future.

(8) Lease Commitments

The Company and its subsidiaries have entered into long-term leases on real estate requiring annual rental payments ranging from approximately \$1,800,000 in 1969 to approximately \$1,000,000 in 1973 and decreasing amounts thereafter through the year 1987. The leases generally provide for options to renew, and in some cases, require the lessee to pay real estate taxes. In addition, sales offices throughout the United States and Canada are located in premises leased for varying terms at an aggregate annual rental of approximately \$250,000.

(9) Common Stock

At December 31, 1968, a total of 114,173 shares of the Company's unissued common shares was reserved as follows: 72,632 shares for employee stock options, 36,041 shares for the Company's stock purchase plan for employees, and 5,500 shares for possible issuance to stockholders of a company acquired in 1968, which issuance is contingent upon the attainment by the acquired company of specified sales levels during approximately the next three years.

During 1965, the Company established a stock option plan for executive employees under which options may be granted at prices not less than 100% of the fair market value on the date of grant. In addition, Itek options are outstanding under a previous Itek stock option plan and under certain stock option plans of companies acquired by or merged into the Company in 1967. Options under the above plans become exercisable at various dates within five years from the date of grant.

At December 31, 1968, options for 64,457 shares were outstanding at prices ranging from \$11.82 to \$136.13 for an aggregate option price of \$4,988,626 and options for 8,175 shares were available for future grant. Options for 17,785 shares were exercisable at December 31, 1968. During the year ended December 31, 1968, options for 18,425 shares were exercised at prices ranging from \$9.62 to \$92.13 for an aggregate purchase price of \$393,194, options for 28,200 shares were granted at prices ranging from \$91.00 to \$136.13, and options for 9,300 shares terminated. No accounting recognition is given to stock options until they are exercised, at which time the proceeds are credited to the common stock account to the extent of the stated value of the shares issued, and the remainder of the proceeds is credited to capital in excess of stated value.

During 1967, the stockholders approved the Itek Corporation Employees' Stock Purchase Plan, whereby shares of the Company's common stock were reserved for sale to eligible employees at 75% of an average market price, as defined in the Plan. The Company accounts for the discount on the sale of stock under the stock purchase plan as additional compensation to the employees.

Auditors' Report

To the Stockholders of
Itek Corporation

We have examined the consolidated balance sheets of Itek Corporation (a Delaware corporation) and its subsidiaries as of December 31, 1968 and December 31, 1967, and the related consolidated statements of income, retained earnings, common stock, capital in excess of stated value, and source and application of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain confirmation of receivables from certain customers as to which we satisfied ourselves by means of other auditing procedures. The consolidated financial statements for the year ended December 31, 1967 retroactively reflect the merger of a company into Itek Corporation on a pooling-of-interests basis as discussed in Note 1.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Itek Corporation and subsidiaries as of December 31, 1968 and December 31, 1967, and the results of their operations and source and application of funds for the years then ended in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Boston, Massachusetts,
January 27, 1969

Historical Summary (1)

(Amounts in Thousands Except Per Share Amounts and Numbers of Employees)

OPERATIONS	1968	1967	1966	1965
Net Sales and Revenues from Contracts ⁽²⁾	\$126,260	\$129,197	\$94,925	\$75,895
Income (loss) –				
From continuing operations	1,592	5,203	4,019	2,753
Before extraordinary items	592	4,723	3,890	2,822
Extraordinary items, net	(23) ⁽⁴⁾	—	—	—
Net income	569	4,723	3,890	2,822
Earnings Per Share of Common Stock –				
As restated for subsequent mergers and acquisitions accounted for on a pooling-of-interests basis ⁽³⁾				
From continuing operations	.70	2.43	2.03	1.44
Before extraordinary items	.26	2.21	1.96	1.48
Extraordinary items, net	(.01)	—	—	—
Net income	.25	2.21	1.96	1.48
Income before Extraordinary Items as percent of –				
Sales	.5%	3.6%	4.0%	3.7%
Stockholders' Investment	1.4%	11.7%	14.4%	14.7%
FINANCIAL POSITION				
Working Capital	\$22,469	\$23,362	\$21,724	\$12,428
Current Ratio	1.9 to 1	2.0 to 1	2.5 to 1	1.9 to 1
Plant and Equipment, net	21,394	18,142	15,533	11,457
Total Assets	69,161	64,708	53,022	39,441
Long Term Debt	965	778	10,438	5,800
Stockholders' Investment –				
Common stock and capital in excess of stated value	25,802	24,375	15,423	12,408
Retained earnings	16,711	16,142	11,507	6,845
Total stockholders' investment	42,513	40,517	26,930	19,253
Shares of Common Stock Outstanding at Year End	2,275	2,245	2,056	1,962
Book Value per Share of Common Stock	18.69	18.05	13.10	9.81
Government Contract Backlog	83,495	49,290	70,070	40,000
GENERAL				
Number of Employees	6,099	5,749	4,948	3,753

1964	1963	1962
\$55,713	\$47,703	\$47,245
1,430	1,140	193
1,088	861	(61)
—	—	732 ⁽⁶⁾
1,088	861	671
.77	.62	.11
.58	.47	(.03)
—	—	.42
.58	.47	.39
1.9%	1.8%	(.1) %
7.8%	6.8%	(.1) %
\$8,496	\$8,332	\$7,624
1.8 to 1	2.1 to 1	1.9 to 1
10,359	8,528	8,126
31,719	25,076	25,409
5,842	4,657	4,563
10,027	9,760	9,593
3,867	2,839	1,978
13,894	12,599	11,571
1,873	1,854	1,775
7.42	6.80	6.52
42,300	23,330	27,300
3,178	2,885	2,695

1) The Historical Summary has been retroactively restated on a pooling-of-interests basis to include the accounts of companies merged with or acquired by Itek during 1966, 1967 and 1968.

2) The net sales of the division and subsidiary which were discontinued during 1968 are excluded from all years.

3) Per share earnings have been computed on the basis of the average number of shares outstanding during each year, retroactively adjusted to reflect the issuance of additional shares in connection with mergers and acquisitions accounted for on a pooling-of-interests basis.

4) The extraordinary items in 1968 consist of a gain from termination of an agreement and a Federal income tax reduction resulting from the carryforward of prior year losses of The Scionics Corporation; and, costs incurred in closing down the operations of a division and subsidiary.

5) The extraordinary items in 1962 consist of Federal income tax reduction from carryforward of prior year losses, gain on sale of investments and discount on purchase of notes payable of a subsidiary.

Directors

WILLIAM E. AYER, Electronics Industry Consultant
EDWIN D. CAMPBELL, Executive Vice President, Itek Corporation
E. FINLEY CARTER, Former President, Stanford Research Institute
E. RAYMOND COREY, Professor of Business Administration, Harvard University
GEORGE B. KISTIAKOWSKY, Professor of Chemistry, Harvard University
WALTER J. LEVISON, Vice President, Itek Corporation
FRANKLIN A. LINDSAY, President, Itek Corporation
RALPH D. PAINE, JR., Consultant
RICHARD W. PHILBRICK, Vice President, Itek Corporation
ALBERT PRATT, Senior Partner, Paine, Webber, Jackson & Curtis
T.F. WALKOWICZ, Rockefeller Family and Associates
HARPER WOODWARD, Rockefeller Family and Associates

Arthur T. McGonigle, Elisha Walker, Jr., and Robert C. Seamans, Jr.
resigned from the Board of Directors since the last Annual Report.

Corporate Officers

FRANKLIN A. LINDSAY, President
EDWIN D. CAMPBELL, Executive Vice President
WALTER J. LEVISON, Vice President
RICHARD W. PHILBRICK, Vice President
SALVATORE MACERA, Vice President
CHARLES A. DONOVAN, Treasurer
PETER S. PEDULLA, Controller
JAMES W. MOORE, Secretary

**Divisional
Operating
Management**

CHARLES A. BARATELLI, President, Pennsylvania Optical Division
GEORGE W. DESKIN, President, Applied Technology Division
H. E. ETHIER, General Manager, Lincoln Aerospace Division
SIDNEY A. WINGATE, General Manager, Wayne-George Division
ROBERT B. WOLF, President, Business Products Division
JOHN A. WOLFE, President, Optical Systems Division

Transfer Agents

Old Colony Trust Company, Boston
The Chase Manhattan Bank, New York

Registrars

The First National Bank of Boston
United States Trust Co. of New York

Counsel

Herrick, Smith, Donald, Farley & Ketchum, Boston

Auditors

Arthur Andersen & Co., Boston

NOTE: Itek will hold its Annual Meeting of Stockholders at
10:30 A.M. on April 24, 1969 at the Statler-Hilton Hotel,
Boston, Mass.

Itek Corporation, 10 Maguire Road, Lexington, Massachusetts 02173

Itek